

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, SEPTEMBER 28, 2012 – 9:30 A.M.

Present:

Board Members

Roderick Bashir
Devon Bruce
Michele Bush
John Casey
Thomas Hoffman
Steven Powell
Dan Rutherford
Judy Baar Topinka

Staff

Andrew Armonaitis
William Atwood
Johara El-Harazin
Adanna Ene
Timothy Kominiarek
Scott Richards
Linsey Schoemehl
Lorna Scott
Katherine Spinato
Alise White

Guests

State Retirement Systems
Tim Blair, via telephone
Office of the State Treasurer
Bridget Byron
Office of the Comptroller
Alexis Sturm
Marquette Associates
Brian Wrubel, Nichole Roman-Bhatty, Elizabeth
Francis, Dave Smith
Loop Capital
Jason Parks
Williams Capital
Keith Lathan
James Clayborne

Absent:

Board Member

ROLL CALL

Chairman Bruce called the meeting to order at 9:30 a.m. The Secretary called the roll and noted that a quorum was present. The Chairman thanked everyone for attending.

COMMUNICATIONS

Director Atwood distributed copies of a letter from the SEIU President, thanking the Board for the support and efforts during the janitorial contract negotiations in Houston. (Official minutes contain attachment.)

REPORT OF THE CHAIRMAN

Chairman Bruce referred the Board Members to the proposed 2013 Schedule of Meetings. Judge Hoffman stated that he felt the out of town meetings were not a good use of resources. Mr. Bashir stated that he felt it was a good opportunity to allow participants from other parts of the State to attend meetings of the Board. Mr. Powell stated that the costs were nominal. Ms. Bush stated that she was in favor of holding a meeting outside of Chicago once a year.

Following discussion, Chairman Bruce stated that if there were any conflicts to please notify the office and that the Schedule would be finalized and posted prior to year end. Mr. Powell moved to approve the Schedule of Meetings as proposed. Ms. Bush seconded. The motion passed with one nay vote.

MINUTES OF PREVIOUS MEETING

Mr. Powell moved to approve the minutes of the Board meeting held June 15, 2012, in the form previously submitted, with the correction made on page 4. Ms. Bush seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Investment Policy Committee

Chairman Bruce stated that the Investment Policy Committee had also met the previous afternoon and reported the following actions:

- Committee reviewed Hedge Funds and recommended terminating Grosvenor and allocating the funds to Rock Creek and Entrust on a pro rata basis.
- Committee heard a presentation and recommends retaining THL Credit as a bank loan manager following the RFP review.

- Committee heard a presentation and recommends a \$20 million private equity commitment to Clearlake Capital III, L.P.
- Committee heard presentations from Mellon and Northern Trust and recommends retaining Northern Trust Global Advisors to manage three index fund options in the Deferred Compensation Plan.
- The Committee will be conducting a portfolio yield review at the December meeting.

Following review, Mr. Bashir moved to approve the above recommendations and ratify the actions of the Investment Policy Committee. Mr. Powell seconded and the motion passed with Treasurer Rutherford and Comptroller Topinka recused themselves from the vote.

Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- The Committee approved conducting a comprehensive risk assessment study with Deloitte commencing January 1, 2013, with the objectives being outlined in the previously distributed report.
- The minutes of the Audit and Compliance Committee meetings held June 15, 2012, were approved.
- Ms. White reported that the FY2012 financial audit had commenced.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through June 2012.
- The Commission Recapture Report for the quarter ending June 2012 was reviewed and approved.
- The Records of Vouchers for the months of April, May and June 2012 were reviewed and approved.
- The Committee reviewed and accepted the report on placement agent contacts and ex parte communications for FY 2013 1st Quarter.
- Ms. Bush requested appointed Board Members to submit quarterly timesheets.

Mr. Powell moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Mr. Bashir seconded and the motion passed unanimously.

Executive Committee

Director Atwood reported that the Executive Committee had met August 9, 2012 and approved the retention of Entwistle & Cappucci for legal representation in the Tribune Company Fraud Litigation.

DEFERRED COMPENSATION

Report of Consultant – Marquette Associates

Mr. Wrubel, Marquette Associates referred the Board Members to the "Illinois State Board of Investment Deferred Compensation Executive Summary" for the quarter June 2012. (Official minutes contain attachments.)

Mr. Wrubel reviewed the capital markets and Ms. Roman-Bhatty reviewed the Plan summary and investment performance.

Ms. Schoemehl reported that the Administrative Rules relating to the Deferred Compensation Loan Policy were filed and absent any objections from JCAR, loans would be available to Plan participants beginning January 2, 2013.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – June 2012 and July Interim Report

Mr. Wrubel reported that the Investment Performance Report for the quarter ending June 2012 had previously been distributed. Mr. Wrubel distributed an update for July 2012. (Official minutes contain attachments.)

Director Atwood reported that representatives of Franklin Park would be in attendance at the December meeting to review the Private Equity portfolio.

REPORT OF THE DIRECTOR

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)), approve closed session minutes (5 ILCS 120/2 (21)) and current Board litigation (5 ILCS 120/2(c)(11)). Mr. Bashir moved to go into Executive Session for the above-stated purposes. Mr. Powell seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood and Ms. Schoemehl.

Ms. Bush moved to return to the Open Session. Mr. Powell seconded and the motion passed unanimously.

Following Executive Session, Mr. Powell moved to approve the matters relating to investment managers as discussed in Executive Session.

Ms. Bush moved to approve the minutes of the Executive Session meetings held April 6, 2012, June 15, 2012 and August 9, 2012. Mr. Powell seconded and the motion passed unanimously.

Watch List

Mr. Richards reported that the Watch List was previously distributed and reviewed. (Official minutes contain attachment.)

Matters Relating to Existing Managers

Director Atwood stated that a memorandum was previously distributed. (Official minutes contain attachment.)

Legal Matters

Director Atwood stated that this was discussed during the Executive Session.

Update on Securities Lending – Quarter Ended 06/30/12

Ms. El-Harazin referred the Members to a memorandum “Securities Lending Reporting – June 30, 2012” dated September 17, 2012 and reviewed. (Official minutes contain attachment.)

Update on Change to Independent Fiduciary

Ms. El-Harazin referred to the memorandum “Update Re Independent Fiduciary Service Provider” dated September 13, 2012, and reviewed. (Official minutes contain attachment.)

Minority Broker Usage Report

Ms. El-Harazin reviewed the minority brokerage commissions for the quarter ended June 30, 2012, as outlined in the memorandum “Minority Broker Commission Report as of June 30, 2012. Mr. Bashir moved to accept the report. Mr. Powell seconded and the motion passed unanimously. (Official minutes contain attachment.)

Review of Transaction Cost Analysis

Ms. El-Harazin referred the Board Members to “Transaction Cost Analysis (TCA) Summary Report – Equity and Fixed Income Reports” for the period ended June 30, 2012, and reviewed. (Official minutes contain attachment.)

Review of FX Cost Analysis

Ms. El-Harazin stated that the FX Summary Report for the quarter ended June, 2012 was previously submitted, and reviewed. (Official minutes contain attachment.)

Update on Foreign Markets: Taiwan

Ms. Schoemehl referred the Members to her memorandum “Foreign Tax Consultant” dated September 13, 2012 and reviewed, stating that Staff and Consultant were recommending permitting the use of commingled funds as investment vehicles which

the Board's investment managers may utilize in order to gain access to the Taiwanese market.

Following review and discussion, Comptroller Topinka moved to approve the recommendation to utilize commingled funds to gain access to the Taiwanese markets, as recommended by Staff and Consultant. Mr. Powell seconded and the motion passed unanimously. (Official minutes contain attachment.)

List of Forbidden Entities and Scrutinized Companies

Ms. Schoemehl referred to the memoranda "List of Forbidden Entities-Public Act 95-0521" and "List of Scrutinized Companies-Public Act 95-616" dated September 12, 2012. Following review, Mr. Powell moved to approve the lists of Forbidden Entities and Scrutinized Companies as distributed. Comptroller Topinka seconded and the motion passed unanimously. (Official minutes contain attachments.)

Proposed Revisions to Administrative Rules Relating to Power Agency Trust

Ms. Schoemehl referred the Members to the memorandum "Illinois Power Agency Trust Fund Administrative Rules" dated September 18, 2012, which had previously been distributed. Following review, Mr. Powell moved to approve the Staff recommendation to amend Administrative Rules (74 Ill. Adm. Code 800) in the form previously distributed and allow Staff discretion to make modifications as necessary to accommodate administrative issues presented during the rulemaking process. Comptroller Topinka seconded and the motion passed unanimously. (Official minutes contain attachment.)

Proposed Update to Employee Directive Manual

Ms. Spinato referred the Members to her memorandum "Employee Directives Manual" dated September 18, 2012 and reviewed. Following review and discussion, Ms. Bush moved to approve the revisions to the Manual as outlined and, in addition, requested that IT staff add filters to the Board's systems, with a report back to the Board at the next meeting. Comptroller Topinka seconded and the motion passed unanimously.

Update on Investment Manager Transactions

Ms. El-Harazin reviewed the memorandum "Funding of New State Street Global Emerging Markets Account" dated May 29, 2012. (Official minutes contain attachment.)

Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ended June, 2012 was previously distributed. The Chairman ordered the report filed. (Official minutes contain attachment.)

Legislative Update

Director Atwood reported that no action was taken on pension reform legislation during the special legislative session and it would possibly be considered during the January session.

Update on Corporate Governance Matters

Ms. Schoemehl referred the Members to her memorandum "Harvard Law School Shareholder Rights Project Update" dated September 12, 2012, and reviewed. (Official minutes contain attachment.)

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

Chairman Bruce stated that a comprehensive portfolio review would be presented at the December meeting.

NEXT MEETING AND ADJOURNMENT

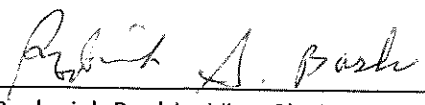
Chairman Bruce stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, December 14, 2012 at 9:00 a.m. and 9:15 a.m., respectively.

At 11:20 a.m., there being no further business to come before the Board, Mr. Powell moved to adjourn. Mr. Bashir seconded and the meeting was adjourned.

Respectfully submitted,



Devon Bruce, Chairman
Illinois State Board of Investment



Roderick Bashir, Vice Chairman
Illinois State Board of Investment